Testimony of
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Specialty Crops and Foreign Agriculture Programs

Mr. Chairman and distinguished members of the Committee, it is an honor to appear before you this morning. On behalf of the peanut farmers of North Carolina I want to thank the Committee for all the hard work done during the last Farm Bill and for its continued efforts to ensure a smooth implementation of the Bill's provision.

American Agriculture is undergoing tremendous changes as a result of the past Farm Bill. North Carolina is going through the same changes. It is probably more visible in our state because of two very important crops; Tobacco and peanuts.

In the last year of the prior Farm Bill, there were 125,000 acres of peanuts planted in North Carolina. In 2003 there were 100,000 acres planted. But these figures don't tell the whole story. Prior to this Farm Bill, Northampton County, North Carolina was the #1 peanut producing county in the state with 20,247 acres. It is projected that there will be less than 2,500 acres of peanuts planted in the county in 2004. The southern part of North Carolina, which includes Mr. McIntyre's district, planted 4,300 acres of peanuts in 2001 and 8,843 in 2003. Projections are that there will continue to be acreage shifts again in 2004.

What is the reason for this shift in acreage? The peanut section of the 2002 Farm Bill has allowed this to happen. With the elimination of the quota system, along with decoupling and counter cyclical payments, farmers were free to make planting decisions based on the market, yield capabilities of their land, rotation considerations and prices of other commodities.

Now in North Carolina; where peanuts are planted is dependent on the yield potential of the land. Areas that have had intensive peanut production in the past suffer yield reductions because of disease pressure and short rotations because of a shortage of available peanut land.

The loss of peanut acres in these counties is causing economic hardship, however that distress is being buffered with direct and counter cyclical payments. One of the most important provision of the new peanut program was the assignment of base to the producer based on his production history. During this time of transition, acreage shifts and adjustment, the direct and counter cyclical payments are critical to the economic survival of many peanut farmers along with their local economies.

Farmers who produce program crops have been freed to make planting decision without regard to crop acreage bases and respond to market prices. Peanuts were included in this process by the current Farm Bill. During the writing of the Farm Bill, those representing the peanut farmers interests were ask to make peanuts look like the other program crops. That is what happened and it seems to be working. One posted price, one loan rate and one target price for each commodity works for corn, cotton and wheat and it works for peanuts.

One area that NC Peanut Growers Association has been working on since the Farm Bill was passed is Federal Crop Insurance. Prior to the current Farm Bill, producers could insure their peanuts with a price guarantee that would come close to covering variable cost. The insurance price for peanuts in effect now was specified in the Farm Bill; 17.75 cents per pound versus 30.5 cents per pound under the old program. For the 2004 crop, the rate was increased to 17.85 cents per pound.

To illustrate my point, consider a producer in North Carolina who has a crop insurance yield of 2850 pounds per acre. If he elects the 60 % coverage, his guarantee would be $305.00 per acre. The average variable cost of production in North Carolina for 2003 was $517 per acre. If the producer spends $517 in production costs and produces 1,000 pounds per acre, he would collect $119.74 per acre in insurance. He could sell his peanuts for $250.00, which would result in a $147.27 loss per acre..

If he was able to purchase insurance up to the contract price the picture would be different. 60% of $500 would be $300 or $428 per acre. Using the same yield as above would result in a loss of only $96.50 per acre. With a higher insurance yield of 3,500 pounds per acre, the higher payment rate allows the producer to come close to covering variable costs

We have been working with an insurance company to develop an option that producers could purchase to bring their coverage up to the contract price level. Also, Congressman Etheridge has been informed by Risk Management that they are working on a complete overhaul of the peanut insurance policy, to be effective in 2006. The bottom line is that we need help now, and any help the Committee can give us to rush this process along will be greatly appreciated.

Because the old Peanut Program was eliminated, there is a tendency to eliminate everything about the old program. However there are some items of the old program that should be retained. The Farm Operator ID Card was extremely useful. The loan program, insurance contracts and warehouse requirements all use farm numbers and producer shares which were on the ID card. The producers and buying point operators liked the cards, but in 2003 they were eliminated.

The FSA 1007 is the producers' record of sale. It contains all grading information and explains exactly how his sale proceeds were computed. It is useful to the producer and the sheller. This form should not be eliminated.

Every effort should be made to facilitate wider use of electronic warehouse receipts. FSA is stretched to the limit and there should be a better way to transfer loan data from the sheller to an FSA office. The loan program is an integral part of the peanut program. It provides for the payment of storage and handling which allows the program to function as designed.

Thank you for allowing me to speak today. As the peanut producers of North Carolina and the Nation adjust to the new Peanut Program, this type of exchange will greatly enhance their chance for success.